Alberta Government

Petroleum Plaza – North Tower
7th Floor, 9945 – 108 Street
Edmonton, Alberta T5K 2G6
Canada
www.alberta.ca

GAS ROYALTY OPERATIONS INFORMATION BULLETIN September 2013

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PLEASE ENSURE YOUR PRODUCTION ACCOUNTANTS RECEIVE A COPY OF THIS DOCUMENT

PRICING, ROYALTY RATES AND TRANSPORTATION INFORMATION

A. For Pricing, Royalty Rates and Transportation Information for July 2013, refer to the Information Letter.

The monthly default sulphur price for July 2013 is $73.26.

Annual Sulphur Default Price

2008	2009	2010	2011	2012
$297.38	$5.83	$42.19	$109.98	$98.02

B. NOTICES

Business Operations Working Committee (BOWC) Information Exchange 2013

BOWC and the Department of Energy will be conducting an information exchange session in Calgary on October 3, 2013.

Date/time: Thursday, October 3, 2013, 9:30 am to 12:00 pm
Doors open at 9:00 AM (refreshments available)
Presentation begins at 9:30 AM

Location: ConocoPhillips Conference Center
Gulf Canada Square
3rd Floor Auditorium
401 - 9th Avenue S.W.
Calgary, Alberta
T2P 2H7

Topics:
PETRINEX – reporting updates including crude by rail
NGL Reference Price Valuation Initiative – overview and impact
Trucking Deductions
Oil and Gas Rates and Programs – DAR and NWRR reports
Defaults Report – upcoming changes and tips
APMC update

Registration: Please email Connie Brailean at ODEdmOp@gov.ab.ca by Friday September 27, 2013 to register for the session. Please include the subject line: ***BOWC Info Exchange 2013*** in

your email. As seating is limited, please indicate the number of attendees from your company, their names and email addresses.

The Information Exchange includes a 30 minute networking session where members of Oil and Gas Royalty Operations will be available.

Please note this session is not intended to address policy questions, rather focuses on royalty operations.

Changes to the Crown Royalty Default Report

Enhancements have been made to the default report and will be reflected in the September 2013 billing period invoice. The default report is being changed to a cumulative report. Prior to the implementation of this change, the report only displayed defaults that occurred in the billing period that it was issued. Effective the September 2013 billing period issued in November 2013 calendar month; this report will be cumulative and will report all defaults for all open production years each month. Therefore, if you receive a default in the September billing period invoice and it remains unresolved, it will appear in the report issued in the October billing period invoice and will continue to appear until it is resolved or the year becomes statute barred. In addition, the comma separated value format for the default report will include an additional column specifying the dollar amount of the detail line for which a default occurred.

If you have any questions regarding the enhancements to the default report, please contact your respective Volumetric & Cost Reporting portfolio representative as identified in Section F of this bulletin.

ABWG99999 PURDISP to IF

A Purchase Disposition (PURDISP) is a DoE volumetric activity used to identify the sale of lease fuel gas within the royalty network (in-net) which is consumed entirely for fuel and is royalty liable.

Effective November 6, 2013, Petrinex will disallow the activity PURDISP when the reporting facility type is ABBT, ABGS or ABGP and the From/To type is IF. This will be effective production period 2009/01 on a go-forward basis. New submissions and amendments will have to be filed as a Disposition (DISP).

Royalty clients may submit an application to Gas Royalty Operations to review the eligibility of allocation of these royalty triggered volumes to ABWG 99999, which has 0% Crown interest.

For further information, please contact your respective Volumetric & Cost Reporting portfolio representative as identified in Section F of this bulletin.

Statutory Requirement and Recalculation of 2009 Royalty

A production year becomes statute barred on December 31st, four years after the end of a production year. Once a year has become statute barred, calculation or recalculation of royalty

does not occur on a monthly basis. Section 38 of the Mines and Minerals Act provides for recalculation of royalty that can be initiated in two ways:
1. On the department's initiative in conjunction with an audit or examination; or
2. At the request of a royalty payer.

Audits in Progress

Non-operator partners are informed that certain 2009 Allowable Costs, Capital Costs, Custom Processing Fees, Custom Processing Adjustment Factor (CPAF), and other reporting discrepancy audits are in progress. It is anticipated that these audits will be completed before December 31, 2013. However, should circumstances warrant a completion of these audits in 2014, a list of the affected Alberta Energy Regulator (AER) facilities will be included in the December 2013 Information Bulletin. Royalty clients are also reminded that amendments received by the department in the fourth year following the production year may be subject to audit. If the amendments are received late in the fourth year and insufficient time is available for the department to commence a review of the amendments prior to the end of the year, the department reserves the right to commence the audit at the beginning of the fifth year.

If you have any questions, please contact Kris Pretty, Manager, Compliance & Assurance, Calgary, at (403) 297-8785.

Industry Recalculation of 2009 Royalty

Industry initiated royalty recalculation requests for the 2009 production year must be submitted in writing to the attention of Olga Marocco, Acting Manager, Volumetric & Cost Reporting, Gas Royalty Operations. This request must be received by the department on, or before, December 31, 2013 and it must include the following:

- Identification of the recalculation facility or facilities
- A list of the royalty variables proposed for recalculation
- The reason for the recalculation
- The production year of the recalculation
- An order of magnitude estimate (i.e. >$100,000, >$1 Million, >$2 Million, etc.,) of the recalculation requested
- Identification of all royalty clients that may be impacted by the request (this is necessary, especially in situations where volumes may be cascaded to another client who is expected to respond to the cascade)
- Confirmation from the operator that the affected partner(s) have been notified
- A sample copy of the submission pertaining to a particular production month in paper or electronic format (e.g., excel)

If the request meets the department's terms and conditions for recalculation, it will be approved. A request made during the fourth year following the production year must be completed before the end of the fifth year, with a reasonable time for a review by the department before the end of the fifth year.

If you have any questions regarding this process, please contact your Volumetric & Cost Reporting portfolio representative as identified in Section F of this bulletin.

C. MONTHLY INFORMATION

July 2013 Royalty Due October 31

- **Royalty clients are to remit the total amount payable shown on the October 2013 Statement of Account by October 31, 2013**. If the amount payable includes accrued current period interest, the interest has only been accrued to the statement issue date. Clients must also include the additional interest that has accrued from the statement issue date to the date of payment, using the per diem amount provided.

- **The October 2013 Statement of Account shows your amount payable as of the Statement issue date. It includes any outstanding balances from your previous statement, your July 2013 invoice amount and any applicable current period interest charges. It also identifies refunds resulting from overpayments.**

- Current period interest will not be charged on current invoice charges for the production month of July 2013 if it is paid in full by October 30, 2013.

- Current period interest will accrue on any overdue charges commencing the first day after the due-date until it is paid in full.

  Note: If the due date falls on a non-business day, the next business day will apply as the due date *except for the month of March due to the Government of Alberta's fiscal year end.* In this situation, the due date will apply previous to the non-business day as the due date.

- Cheques are payable to the Government of Alberta.

August 2013 VA4 Due October 15

The VA4 forms for the production month of August 2013 are due in the department offices by October 15, 2013.

Note: If the due date falls on a non-business day, the next business day will apply as the due date for VA4 forms.

Petrinex Deadline Submissions

The Petrinex deadline for SAF, OAF, and Volumetric submissions are posted on the Petrinex website "Reporting Calendars" under Calendars. ***Changes to this calendar will be posted on the Petrinex website home page in "Broadcast Messages."***

Interest Rate September 2013

Alberta Energy's interest rate for September is 4.00%.

June Provisional Assessment Charge

The summary of Provisional Assessment Charges for all production periods in the June 2013 billing period was:

First Time Provisional Assessment	Reversals of Provisional Assessments (Net)	Net Provisional Assessment
$4,803,804.55	**($9,103,896.71)**	**($4,300,092.16)**

June Penalty Charges

The penalty table below shows at the form level, the total penalty charges and reversals, for the June 2013 billing period.

Forms	Penalty Charges	Penalty Reversals	Net Penalty Charges for 2013/06
AC2	$110,600	($900)	$109,700
AC4	$0	$0	$0
AC5	$1,400	$0	$1,400
NGL1	$0	$0	$0
VA2	$0	$0	$0
VA3	$0	$0	$0
VA4	$200	$0	$200
Total	**$112,200**	**($900)**	**$111,300**

Production Allocation Discrepancy (PAD) Potential Royalty Impact

As of the June 2013 billing period, the potential royalty dollar impact is estimated as $14.7 million, distributed as follows by production year:

2010	2011	2013
$6.3 million	$5.1 million	$3.3 million

Note: These values are not intended to show that Crown royalty has been understated but do illustrate the consequences of incorrect reporting.

Well Event Measured Depth Determination Letter

The department has issued a "Well Event Measured Depth Determination Letter" under the Report Package DOE – Gas to facility operators via Petrinex on September 1 and 15, 2013. This letter shows the confirmed Measured Depth (MD) of each active well event that will be used to calculate the Depth Factor (DF) of the quantity component rate under the Alberta Royalty Framework formula. A well event that is not listed on the letter and does not have a confirmed MD will receive a DF of 1. When the changes to the MD are confirmed by the department, a letter is issued to a facility operator who reports changes through Petrinex to well event attributes affecting MD. All changes to the MD are applied on a go forward basis only. Facility operators are advised to submit well event attribute changes by the last day of the calendar month in order for timely determination of MD.

NGDDP Confidential Wells

Wells designated as "confidential" will be reviewed prior to the removal of the "confidential" status, if the directional surveys and completion reports are provided to the department. Please send directional surveys and completion reports to GasRoyaltyPrograms@gov.ab.ca

If you have any questions, please contact Joyce Chen at 780-427-1550.

Gas Royalty Operations Support

Upon request, Gas Royalty Operations staff will be available to meet with clients who need assistance with royalty reporting. Royalty clients requiring assistance are encouraged to contact your respective Gas Royalty Volumetric and Cost Reporting portfolio representative, as identified in Section E of this bulletin, to arrange a meeting.

D. INFRASTRUCTURE DATA CHANGES

Client ID Listing

The BA Identifiers Report is a directory of Business Associate (BA) names, codes, status (e.g. struck, active, amalgamated, etc.), status effective dates, and effective August 2004, includes Working Interest Owner (WIO) role start/end dates.

This report is also published daily on the Petrinex website.

The Department reminds Business Associates to review their WIO role to ensure that the start and end dates are reflected correctly. If the BA does not have an active WIO role, the operators cannot allocate volumes to the BA for the relevant production periods through the SAF/OAF allocations.

- If a BA has a WIO role, then that BA can receive SAF/OAF allocations from the WIO role start date forward.

- If a BA has a WIO role with an end date, then they can only receive SAF/OAF allocations from the WIO role start date until the end date. Any SAF/OAF allocations after the end date will be rejected.

- If a BA does not have a WIO role start date, then that BA cannot receive SAF/OAF allocations.

Please contact Client Registry at 780-422-1395, if you have any questions regarding the information supplied on this listing.

Client Status Changes

Clients must ensure that all royalty documents are completed using only valid client names and IDs. It is critical that royalty clients use current legal client names and their appropriate IDs on all documents to ensure accurate royalty calculation and to prevent provisional assessment and penalties. Rejects will occur when invalid IDs are used.

If you require information regarding client names or IDs, please contact Client Registry at 780-422-1395.

Nova Tolls - Multiple Gas Reference Prices

Royalty information related to the implementation of the Factor Model negotiated with industry for determining Multiple Gas Valuation Prices is provided on the Natural Gas website's Royalty Related Information page under Facility Royalty Trigger Factors and Meter Station Ties.

E. REMINDERS

Correction to May's Royalty Deposit Adjustment

The annual royalty deposit adjustment is calculated as $1/6^{th}$ of the client's previous year's royalty multiplied by a factor. The factor of 1.75 is calculated by dividing the current year's long term gas price for **2013** of 3.75 by the average 2012 Alberta Reference Price of 2.14. The adjustment was processed in the Initial Annual Billing Period (IABP), June 2013 calendar month (April 2013 billing period invoice).

If you have any questions, please contact Joey Dennis at 780-643-1596.

2013 Capital Cost, Operating Cost and Custom Processing Fee Allowances

For the January through March 2013 billing period invoices, royalty clients received estimated monthly cost deductions that were based on actual allowable costs for the 2011 production year, multiplied by their estimated Facility Effective Royalty Rates (FERR), divided by 12 (months).

The information in the 2012 AC2, AC3, and AC5 documents was used to calculate the 2012 actual capital cost, operating cost and custom processing fee allowances. The calculations are reflected in the April 2013 Initial Annual Billing Period (IABP) invoice, issued in June 2013.

The 2012 actual allowable costs become the royalty client's 2013 allowable cost estimates, except when a cost estimate is manually processed in the January, February, March or April 2013 production month; in which case, the system does not replace it with a new cost estimate in the April Initial Annual Billing Period (IABP) invoice. A client must submit a written request for a subsequent adjustment to be made. (See Chapter 6, Section 1 of the Guidelines).

Commencing with the April 201 billing period, royalty clients receive monthly deductions based on their 2013 allowable cost estimates, multiplied by their new FERR, minus the total deductions received in the January through March 2013 billing period invoices, divided by the number of months remaining in the year (e.g., 9 months as of the April billing period).

If a royalty client requires a change to the 2013 go-forward allowable cost estimates and/or the FERR, a written request with supporting documentation must be submitted to the Gas Royalty Volumetric and Cost Reporting team. These estimates must be calculated and submitted at a client/facility level.

If you require further information, please contact your respective Volumetric & Cost Reporting portfolio representative as identified in Section F of this bulletin.

AC2 Retirement Reporting

Further to an article in the November 2012 Gas Royalty Information Bulletin, the Department of Energy advises that capital cost retirements reported on the AC2 are subject to review and will be reversed if not correctly reported. Appendix N of the 2009 Alberta Natural Gas Royalty Guidelines states:

"Retired asset means an asset included in the allowable capital cost of a facility cost centre that has been **permanently retired** from service."

In determining if an asset has been correctly retired, the Department will review the type of asset and the purpose of the asset to ensure that all impacted reporting documents reflect the correct retirement information.

If the retired asset is an FCC for a tie-in to a specific well, it is expected that the well's production has diminished to a level where it is uneconomic to produce before retirement is considered. In this situation, it is expected that the well status will be reported as **abandoned** and the FCC will be **terminated** on the AC1 within the time provided in the Mines and Minerals Act for industry clients to amend their submissions.

If the tie-in is used by more than one well, all of the wells using the tie-in must be reported as **abandoned**.

If the retired asset is an FCC for a compressor for a specific well, the reporting would be similar to the tie-in. The retirement of the compressor should be supported by documentation showing the compressor has been **permanently removed** from service.

A compressor moved from one FCC to another FCC is not considered a retirement. Compressors moved from an FCC to another FCC should be reported as a **transfer** on the AC2 from the transferring FCC and a **transfer in** on the AC2 of the receiving FCC. The value of the transfer should be at the depreciated value of the compressor.

Each retirement situation will have unique characteristics and should be reviewed to ensure that the reporting for impacted FCCs and wells is correct and valid.

If you have any questions about the retirement of assets on an AC2 please contact Robert Sonego, Audit Manager, Compliance and Assurance at 403-297-8774 or Robert.Sonego@gov.ab.ca.

F. POINTS OF CONTACT

Quick Reference

Petrinex	Petrinexsupport@Petrinex.ca
V&CR	VCR1@gov.ab.ca
	VCR2@gov.ab.ca
	VCR3@gov.ab.ca
Gas Royalty Accounts	GasRoyaltyAccounts.Energy@gov.ab.ca
Royalty Features	GasRoyaltyPrograms@gov.ab.ca

Petrinex (formerly Petroleum Registry of Alberta)

The focal point for communications regarding preparations for, access to, or utilization of Petrinex is the Petrinex Service Desk.

Contact Information:
Phone: 403-297-6111 or 1-800-992-1144
Fax: 403-297-3665
Email: Petrinexsupport@Petrinex.ca
Website: www.Petrinex.ca

Volumetric & Cost Reporting

Volumetric & Cost Reporting is structured as a Business Associate client portfolio system, which assigns a given Business Associate to one of three teams. Listed below is the portfolio

breakdown along with the Volumetric & Cost Reporting Team Leads and phone numbers. The portfolios are divided by company name and not by BA ID.

Example: If your company name is the "Gas Company" you would call the C – G team at 780-644-1202

Business Associate	Phone Number and E-mail Address	Team Lead
Numbered companies, A, B, H-P	780-644-1201 VCR1@gov.ab.ca	Joyce Chen
C – G	780-644-1202 VCR2@gov.ab.ca	Nicole LeBlanc
Q – Z	780-644-1203 VCR3@gov.ab.ca	Jyoti Bhambhani

Gas Royalty Reception: 780-422-8727
Fax: 780-427-3334 or 780-422-8732
Alberta Toll Free: 780-310-0000

Hours of operation are 8:15 a.m. to 4:30 p.m. Voice messages left after 4:30 p.m. will be answered the next business day.

In situations where a company has just amalgamated or purchased another company, the general rule is to call the team that is responsible for the "Supra" business associate, or Royalty payer. Below are some guidelines for clients who are unsure which Volumetric and Cost Reporting Team to call regarding their questions.

1. **Amalgamation/consolidation** - Call the team responsible for the "Supra" business associate (Royalty Payer).
   i.e. ABC Oil and Gas amalgamates with Zed Exploration and Zed is the amalgamator (royalty payer). When calling Volumetric and Cost Reporting regarding business for ABC Oil and Gas, you would call Team 3 (Q-Z) (780-644-1203) because Zed Exploration is now the Supra business associate and royalty payer. This rule would apply even if you were calling regarding business that is prior to the acquisition or amalgamation.

2. **Asset Purchase** - Call the team responsible for your company.
   i.e. 123 Gas purchases the assets of TSP Exploration, but not the company. When calling Volumetric and Cost Reporting regarding business for 123 Gas, you would call Team 1 (# Co., A, B, & H-P) (780-644-1201) because you have only purchased assets.

3. **Consultants/service providers** - If you have a contract to provide production accounting services to a company, call the team responsible for your client's company.
   i.e. Paul Snow Consulting Services enters into a contract with Duckback Oil and Gas and

Olive Oil and Gas. Paul Snow would contact Team 2 (C-G) (780-644-1202) to discuss Duckback Oil business and Team 1 (# Co., A, B, & H-P) (780-644-1201) to discuss Olive Oil and Gas business. At the time the contract is signed, Paul Snow would have had each company notify the appropriate team that he was authorized for their company.

Management Information

Effective March 1, 2013, all royalty deposit inquiries are to be forwarded to the Royalty Accounting Team at GasRoyaltyAccounts.Energy@gov.ab.ca.

Royalty Accounting

All inquiries or requests that relate to royalty accounting (e.g. Transfers, Refunds, Interest, Statement of Account, Collections and Royalty Deposits) should be forwarded to the Royalty Accounting Team at GasRoyaltyAccounts.Energy@gov.ab.ca.

Royalty Features

All inquiries or requests that relate to royalty programs (e.g. Natural Gas Deep Drilling Program, New Well Royalty Rates and Otherwise Flared Solution Gas Royalty Waiver Program) should be forwarded to the Royalty Features team at GasRoyaltyPrograms@gov.ab.ca.

Alberta Energy Internet

Prices, Royalty Rates and Transportation Information are available on the Alberta Energy Internet address: www.energy.alberta.ca, from "Our Business", navigate to "Natural Gas", "About Natural Gas", "Prices", "Alberta Natural Gas Reference Price (ARP)". In addition, both the Gas Royalty Information Bulletins and Information Letters are also available under "Our Business", navigate to "Natural Gas", "Legislation, Guidelines & Policies".

Reference Prices and Valuation Allowances Calculation Information

Pricing & Analysis
300, 801 – 6 Avenue SW
Calgary, Alberta T2P 3W2
Telephone: 403-297-5514
Fax: 403-297-5400

MAY BE THIS T
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FOR

Richard Stokl
Director, Gas Royalty Operations
Royalty Operations